CORONATION BOND FUND

Fund Information as at 31 December 2022

CORONATION
TRUST IS EARNED™

WHAT IS THE FUND'S OBJECTIVE?

The fund seeks to maximise returns from a diverse range of primarily South African bonds. It aims to outperform the All Bond Index.

WHAT DOES THE FUND INVEST IN?

The Bond Fund can invest in fixed income instruments, issued by governments, parastatals and private companies, as well as cash. Exposure to foreign assets will typically not exceed 10%. The fund is mandated to make use of derivative instruments for efficient portfolio management purposes.

IMPORTANT PORTFOLIO CHARACTERISTICS AND RISKS

Risk Profile

5/10
Moderate

Maximum growth/ minimum income exposures

- Growth Assets: 0%
- Income Assets: 100%

The fund is strategically managed to secure an attractive return by investing primarily in a range of government and corporate bonds. It will hold various tactical positions to benefit from the best opportunities as they emerge.

Investments are meticulously researched and subjected to a strict risk management process. Only quality instruments of reputable institutions will be considered. All factors that could affect these investments are carefully monitored, including inflation as well as currency and interest rates.

The risk of losing money over periods of more than a year is low, while it is slightly higher for periods of less than a year. The primary risk exposures are to changes in interest rates and corporate credit events.

HOW LONG SHOULD INVESTORS REMAIN INVESTED?

The recommended term is three to five years.

WHO SHOULD CONSIDER INVESTING IN THE FUND?

Investors who seek the benefits of an actively managed bond fund. The fund is particularly suited to those who require exposure to bonds as part of a diversified portfolio.

WHAT COSTS CAN I EXPECT TO PAY?

An annual fee of 0.75% (excl. VAT) is payable.

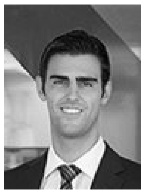
Fund expenses that are incurred in the fund include trading, custody and audit charges. All performance information is disclosed after deducting all fees and other portfolio costs.

We do not charge fees to access or withdraw from the fund.

More detail is available on www.coronation.com

WHO ARE THE FUND MANAGERS?

NISHAN MAHARAJ
BSc (Hons), MBA



STEVE JANSON
BBusSc

SEAMUS VASEY
BCom (Hons), MSc

GENERAL FUND INFORMATION

Launch Date	1 August 1997
Fund Class	R
Benchmark	BEASSA ALBI Index
ASISA Fund Category	South African – Interest Bearing – Variable Term
Regulation 28	Does not comply
Income Distribution	Semi-annually (March & September)
Investment minimum	R5 000 or R500/m debit order
Bloomberg Code	CORSPBD
ISIN Code	ZAE000019790
JSE Code	CNSB

CORONATION BOND FUND

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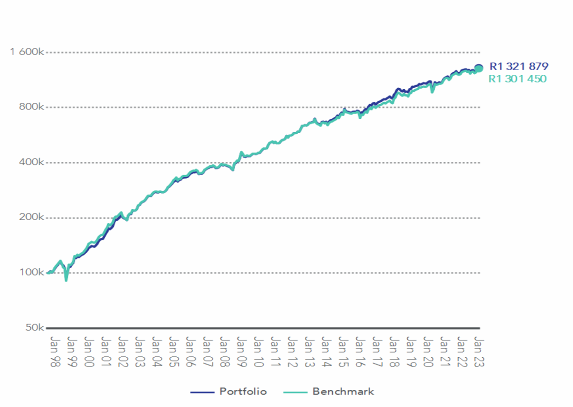
CLASS R as at 31 December 2022

ASISA Fund Category	South African - Interest Bearing - Variable Term
Launch date	01 August 1997
Fund size	R 4.51 billion
NAV	1368.09 cents
Benchmark	BEASSA ALBI Index
Portfolio manager/s	Nishan Maharaj, Seamus Vasey & Steve Janson

	1 Year	3 Year
Total Expense Ratio	0.86%	0.86%
Fund management fee	0.73%	0.73%
Fund expenses	0.01%	0.01%
VAT	0.11%	0.11%
Transaction costs (inc. VAT)	0.00%	0.00%
Total Investment Charge	0.86%	0.86%

PERFORMANCE AND RISK STATISTICS

GROWTH OF A R100,000 INVESTMENT (AFTER FEES)



PERFORMANCE FOR VARIOUS PERIODS (AFTER FEES)

	Fund	Benchmark	Active Return
Since Launch (unannualised)	1221.9%	1201.5%	20.4%
Since Launch (annualised)	10.7%	10.6%	0.1%
Latest 20 years (annualised)	9.0%	8.9%	0.1%
Latest 15 years (annualised)	8.5%	8.3%	0.2%
Latest 10 years (annualised)	7.2%	7.1%	0.1%
Latest 5 years (annualised)	7.1%	7.8%	(0.8)%
Latest 3 years (annualised)	6.3%	7.1%	(0.7)%
Latest 1 year	3.5%	4.3%	(0.8)%
Year to date	3.5%	4.3%	(0.8)%

	Fund
Modified Duration	6.6
Yield (Net of Fees)	10.4%

RISK STATISTICS SINCE LAUNCH

	Fund	Benchmark
Annualised Deviation	7.7%	8.5%
Sharpe Ratio	0.27	0.24
Maximum Gain	26.3%	26.4%
Maximum Drawdown	(19.0)%	(22.3)%
Positive Months	70.8%	70.8%

	Fund	Date Range
Highest annual return	34.9%	Sep 1998 - Aug 1999
Lowest annual return	(7.0%)	Sep 1997 - Aug 1998

PORTFOLIO DETAIL

ASSET ALLOCATION BY ISSUER TYPE

	% of Fund
Government	89.5%
State Owned Entities	1.1%
Banks and Insurers: NCDs and Deposits	2.6%
Banks: Senior Debt	4.7%
Banks: Subordinate Debt (<12m)	0.7%
Banks: Subordinate Debt (>12m)	1.2%
Insurers	0.0%
Other corporates	0.2%
REITS	0.0%
Other (Currency Futures)	0.0%
Total	100.0%

TOP 5 ISSUER EXPOSURE

	% of Fund
Republic of South Africa Government Bonds	88.5%
FirstRand Limited	3.6%
Standard Bank of SA Ltd	3.3%
Nedbank Ltd	2.2%
JP Morgan Chase Bank	2.0%

MATURITY PROFILE DETAIL

Sector	31 Dec 2022
0 to 3 Months	1.7%
3 to 6 Months	0.7%
1 to 3 Years	1.3%
3 to 7 Years	4.8%
7 to 12 Years	35.8%
Over 12 Years	55.6%

INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Interest	Dividend
30 Sep 2022	03 Oct 2022	58.71	58.71	0.00
31 Mar 2022	01 Apr 2022	61.23	61.23	0.00
30 Sep 2021	01 Oct 2021	60.09	60.09	0.00
31 Mar 2021	01 Apr 2021	59.35	59.35	0.00

MONTHLY PERFORMANCE RETURNS (AFTER FEES)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
Fund 2022	0.47%	0.49%	0.39%	(1.69)%	0.93%	(3.26)%	2.78%	0.28%	(2.42)%	0.77%	4.31%	0.58%	**3.46%**
Fund 2021	0.83%	1.00%	(3.20)%	1.83%	4.20%	1.48%	0.68%	1.83%	(2.29)%	(0.20)%	0.54%	3.04%	**9.95%**
Fund 2020	1.19%	(0.09)%	(10.81)%	3.61%	7.11%	(1.43)%	0.29%	1.09%	(0.61)%	0.55%	3.68%	2.04%	**5.73%**

Issue date: 2023/01/16 *Please refer to page 4 of the Comprehensive Fact Sheet for important additional infomation, including change in cost disclosures.*

Please note that the commentary is for the retail class of the Fund.

In the Chinese zodiac, 2022 was the year of the 'Water Tiger'. Tiger years have the potential to be explosive, since, by their nature, the Tiger is a ferocious, impulsive, and quick-tempered animal. In retrospect, financial markets didn't diverge much from this prognosis. The combined effect of the Russia/Ukraine war, aggressive monetary policy normalisation and the lingering effects of Covid-19 yielded a bleak landscape for investors. This precipitated a fall of c.18% in both global bonds and equities during the year.

South Africa (SA) fared relatively better than its counterparts during much of the year, despite the worst bout of loadshedding on record. December, however, brought fresh political concerns as the 'Farmgate' scandal threatened to derail President Cyril Ramaphosa's presidency and his campaign for a second term as ANC president. Fixed income instruments recorded a torrid year, with the entire local asset class underperforming cash, which returned 4.82%, over the period. SA 10-year bonds closed the year at 10.86%, almost 100 basis points (bps) higher than the close at the end of 2021 and a level not seen since the onset of the Covid crisis in March 2020. Despite a high starting yield, the FTSE/JSE All Bond Index (ALBI) generated a total return of 4.26%, which was not only below cash but also marginally behind inflation-linked bonds (ILBs) that delivered a total return of 4.54%. In dollars, the ALBI was down 2.38% in 2022, which is significantly better than global bonds, with the FTSE World Government Bond Index down 18.26%.

2023 is the year of the 'Water Rabbit', which is a sign of longevity, peace, and prosperity in Chinese culture, meaning 2023 is predicted to be a year of hope. South African's have been holding onto hope since President Ramaphosa took over the helm of the ANC in 2017 and the country in 2018. However, the pace of reform implementation has been disappointing and, if it were not for some very good luck over the last two years in the form of higher commodity prices and the restatement of GDP to a higher base, SA might well have found itself in a debt trap.

Government finances remain delicately placed as the primary balance is expected to stay in deficit until at least 2025/2026, reaching a debt load of c.80% of GDP. Financing costs remain well above nominal GDP and the only permanent solution is for the country to generate real economic growth of between 2.5% and 3%. That level of growth cannot be generated by government alone and reforms need to be accelerated to allow the private sector into the economy in a more meaningful way. In the energy sector, private generation can reduce the pressure on Eskom and increase the growth potential of the economy. Other critical infrastructure such as roads, rail and water are in dire need of renewal and current government finances are not well placed for the magnitude of spending required. The private sector has the expertise, willingness and means to alleviate the pressure on government and increase employment opportunities in the economy through these projects. The ANC elective conference in December 2022 has bolstered the hold that President Ramaphosa and his allies have on the ruling party. Let this year's hope be that the time for talking has passed and the time of doing is upon us or else the financial projections below could also become a mere hope.

Global inflation and growth are widely expected to decelerate this year. US inflation, which was stubbornly high over 2022 is expected to average 4% this year from 8% in 2022. SA inflation should also follow a similar path and return to the midpoint of the band by end 2023 and is set to average 5.8% in 2023. The market's expectation for the repo rate has also moderated, with a peak of 7.5% in the first quarter of 2023 (Q1-23), with no cuts priced until early 2024. However, SA growth is expected to decline from above 2% in 2022 to around 1% for 2023. The combination of decelerating global inflation, local inflation closer to the midpoint of the range in the fourth quarter of 2023 (Q4-23), and below-trend growth should, however, start to see expectations for a lower repo rate by end 2023. We view a normal repo rate in the range of 6.5%-7%, which implies the start of a gradual easing cycle in Q4-23. Despite this normalisation in front-end rate expectations, SA 10-year government bonds still trade at quite elevated levels. The implied credit spread for SA bonds still trades at around 50bps above their equivalently rated counterparts.

The SA yield curve remains an anomaly. Beside the fact that yields remain very elevated relative to cash, the SA yield curve remains among the steepest yield curves in the emerging market universe. A key reason for this is the fact that National Treasury continues to issue in the very long-end (>10 years) area of the curve due to the fear of being unable to roll over debt in the event of a crisis. The weighted average maturity of outstanding debt in SA remains among the longest in the world, at 11.34 years. This is significantly better than some developed market countries such as the US that has an average maturity of 6.04 years. Credit spreads in SA remain very tight due to reduced issuance and an abundance of cash looking for a pickup relative to short rates. National Treasury did issue R50 billion of floating rate notes (FRN) in 2022 to supplement their issuance programme at levels of three-month Jibar + 130bps (currently trading in the market at three-month Jibar + 75bps). Even assuming cash stays at 7.5% and they are forced to issue at spreads of 130bps above cash, this still equates to a level of 8.8%, which is almost 2% lower than where the current 10-year bond trades. Another hope is that we see more use of the FRN programme to substitute for current fixed rate issuance, which could reduce the pressure on the 10-year area of the yield curve.

When observing the ratio between the yields on various bonds (five-, 10- and 15-year) relative to expected one-year forward cash rates, the ratio between five-year bonds and cash has returned to pre-Covid levels, however 10- and 15-year bond ratios to cash remain elevated. Historically, 10-year bonds have generally traded at a 10% premium to the five-year ratio. Even if we assume that should now be double, given the deterioration in fiscal accounts, and assume cash in one years' time will sit at 7%, then 10-year bonds should trade somewhere in the range of 9.5%-10%.

These two simple arguments on SA's implied credit spread and the shape of the yield curve lead to the conclusion that SA 10-year bonds remain attractively priced and should trade in the range of 50bps to 100bps lower from a yield perspective.

Corporate credit is an incredibly effective tool that can be used to enhance both the yield and longer-term performance of fixed income portfolios. However, it is important to understand that yield is earned over a multi-year investment horizon, and a long-term focus is essential when analysing and investing in the asset class.

The SA credit market is more nuanced than international credit markets, with significantly lower issuance and hence much lower liquidity, making it predominantly 'buy and hold' in nature. This accentuates the need for the rigorous interrogation of credit quality and appropriate compensation in valuation for holding these instruments. In the years following the Global Financial Crisis, credit has been employed as a significant driver of fixed income portfolio returns, but the types of instruments employed have become more complex and less transparent with regards to the actual risk they carry. This requires investors to spend more time scrutinising not only the credit quality of their investments, but also the instruments through which they lend to these entities.

We believe that the corporate credit spreads currently on offer are not attractive, and do not reflect their inherent risks. As such, we have been allocating away from credit and allowing our investment in credit to become less material in our portfolios for quite some time. However, with the recent repricing of global rates and credit markets, we believe these offer an attractive opportunity for investors.

The local credit market has been influenced by a shortage in supply and an increase in liquidity. Issuance this year has been net negative, and according to data from the Association for Savings and Investment South Africa (ASISA), savings continue to accumulate. A supply/demand imbalance of this magnitude continues to distort fundamental credit pricing.

In our view, SA government bonds (SAGBs) offer a much better allocation opportunity, albeit with more volatility. Over the last five years, fixed rate bonds have comfortably outperformed floating rate credit for investors who have been willing to stomach the additional volatility.

And, going forward, we still firmly believe this to be the case. If we look at the expected returns of a five-year government bond versus a five-year bank credit instrument, government bond yields would need to widen significantly over the next three years to underperform.

Offshore credit is an asset class where we can achieve better returns for similarly priced risk. Better rated, international banks are trading at a wider credit spread relative to our domestic bank issuance. In a year where risk assets have been roiled by market turmoil, SA bank spreads have tightened.

Low levels of issuance and tightening spreads have created a guise of safety when it comes to investing in the local credit markets. We believe that allocating significant amounts of capital to the local credit market is unwise and would represent a substantial opportunity cost in the face of attractive valuations in other, more liquid asset classes. SAGBs and offshore credit markets, despite being more volatile, offer considerably better prospects over the longer term.

ILBs, like nominal bonds, continue to trade at elevated levels. One can attain returns of between 3%-4.5% after inflation when investing in the SA ILB market. In a world of cheap valuations, the limiting factor is cash, and one must be careful, as with credit, when assessing the relative attractiveness of the various asset classes. Although the real yields on offer are quite attractive, the required inflation for ILBs to outperform nominal bonds remains high, specifically for ILBs with maturities of greater than six to seven years (I2029) – see table below. We therefore continue to favour ILBs with a maturity of less than seven years for allocation within a bond fund.

Figure 1

ILBs VERSUS NOMINAL BONDS

Bond	Maturity	Actual real yield	Equivalent nominal bond yield	Required inflation for ILB to outperform nominal
I2025	31 Jan 25	3.34	8.08	4.59
I2029	31 Mar 29	4.15	9.79	5.41
I2033	28 Feb 33	4.41	10.93	6.24
R202	07 Dec 33	4.44	11.06	6.34
I2038	31 Jan 38	4.49	11.50	6.71
I2046	31 Mar 46	4.49	11.47	6.68
I2050	31 Dec 50	4.49	11.39	6.60

Sources: Coronation

Looking forward

The global environment will remain in state of flux for at least the first half of 2023 as the battle between monetary policy normalisation, slowing global growth and sticky inflation continues to wage on. Risk sentiment has recovered slightly since the severe bout of risk aversion in the second half of 2022, but SA faces its own challenges – both politically and economically. Loadshedding, crumbling local infrastructure and souring local sentiment have precipitated the need for swifter reforms and increased private sector involvement. The valuation of SAGBs should provide a reasonable buffer, as they have been already since they trade at significant discount to fair value. We continue to advocate an overweight position in SAGBs, low or no allocation to corporate credit and believe short-dated ILBs still warrant a place in portfolios.

Portfolio managers
Nishan Maharaj, Steve Janson and Seamus Vasey
as at 31 December 2022

IMPORTANT INFORMATION THAT SHOULD BE CONSIDERED BEFORE INVESTING IN THE CORONATION BOND FUND

Unit trusts should be considered medium- to long-term investments. The value of units may go down as well as up, and therefore Coronation does not make any guarantees with respect to the protection of capital or returns. Past performance is not necessarily an indication of future performance. The fund is mandated to invest up to 10% of its portfolio into foreign securities and may as a result be exposed to macroeconomic, settlement, political, tax, reporting or illiquidity risk factors that may be different to similar investments in the South African markets. Fluctuations or movements in exchange rates may cause the value of underlying investments to go up or down. The asset allocation by issuer type and top 5 issuer exposures are not reflected on a look-through basis. Coronation Management Company (RF) (Pty) Ltd is a Collective Investment Schemes Manager approved by the Financial Sector Conduct Authority in terms of the Collective Investment Schemes Control Act. Portfolio managed by Coronation Asset Management (Pty) (FSP 548) Ltd, an authorised financial services provider. The Management Company reserves the right to close the fund to new investors if we deem it necessary to limit further inflows in order for it to be managed in accordance with its mandate. Unit trusts are allowed to engage in scrip lending and borrowing. Standard Chartered has been appointed as trustees for the fund (www.sc.com/za; 011-2176600). Coronation is a full member of the Association for Savings & Investment SA (ASISA).

HOW ARE UNITS PRICED AND AT WHICH PRICE WILL MY TRANSACTION BE EXECUTED?

Unit trusts are traded at ruling prices set on every trading day. Fund valuations take place at approximately 15h00 each business day, except at month end when the valuation is performed at approximately 17h00 (JSE market close) and forward pricing is used. Instructions must reach the Management Company before 14h00 (12h00 for the Money Market Fund) to ensure same day value. The payment of withdrawals may be delayed in extraordinary circumstances, when the manager with the consent of the fund trustees deem this to be in the interest of all fund investors. These circumstances may include periods when significant underlying markets suspend trading which will prevent accurate valuation of the instruments held in the fund. When the suspension of trading relates to only certain assets held by the fund, these assets may be side-pocketed. This process allows normal liquidity on the assets that can be valued, but will delay liquidity on the affected portion of the fund. If the fund is faced with excessive withdrawals, the affected withdrawals may be ring-fenced, which is the separation and delayed sale of the assets reflecting the interest of the liquidity seeking investors. It ensures that the sale of a large number of units will not force Coronation to sell the underlying investments in a manner that may have a negative impact on remaining investors of the fund.

HOW WAS THE PERFORMANCE INFORMATION INCLUDED IN THIS FACT SHEET CALCULATED?

Performance is calculated by Coronation as at the last day of the month for a lump sum investment using Class R NAV prices with income distributions reinvested. All underlying price and distribution data is sourced from Morningstar. Performance figures are quoted after the deduction of all costs (including manager fees and trading costs) incurred within the fund. Note that individual investor performance may differ as a result of the actual investment date, the date of reinvestment of distributions and dividend withholding tax, where applicable. Annualised performance figures represent the geometric average return earned by the fund over the given time period. Unannualised performance represents the total return earned by the fund over the given time period, expressed as a percentage.

WHAT IS THE TOTAL EXPENSE RATIO (TER) AND TRANSACTION COSTS (TC)?

TER is calculated as a percentage of the average net asset value of the portfolio incurred as charges, levies and fees in the management of the portfolio over the period referenced. The TER charged by any underlying fund held as part of a fund's portfolio is included in the fund expenses portion of the TER, but trading and implementation costs incurred in managing the underlying fund are excluded. A higher TER does not necessarily imply a poor return, nor does a low TER imply a good return. The current TER may not necessarily be an accurate indication of future TER's. The 1 year TER is for the 12 months to end of the previous financial year (updated annually). The 3 year TER is for a rolling 36-month period to the last available quarter end (December, March, June and September).

Transaction costs are a necessary cost in managing a fund and impacts the fund's return. They should not be considered in isolation as returns may be impacted by many other factors over time including market returns, the type of fund, the investment decisions of the investment manager and the TER.

The Total Investment Charge is the sum of the Total Expense Ratio (TER) and transaction costs.

ADVICE AND PLATFORM COSTS

Coronation does not provide financial advice. If you appoint an adviser, advice fees are contracted directly between you and the adviser. For more information please contact the relevant platform (Linked Investment Service Provider or Life Assurance Provider).

WHERE CAN I FIND ADDITIONAL INFORMATION?

Additional information such as daily fund prices, brochures, application forms and a schedule of fund fees and charges is available on our website, www.coronation.com

IMPORTANT INFORMATION REGARDING TERMS OF USE

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